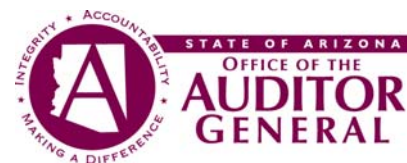


A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Cartwright Elementary School District No. 83



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Laura Miller, Manager and Contact Person
lmiller@azauditor.gov

Paula Gustafson
Roger Walter
Elizabeth Vore

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 17, 2008

Governing Board
Cartwright Elementary School District No. 83
3401 North 67th Avenue
Phoenix, AZ 85033-4599

Members of the Board:

In our December 29, 2006, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2005. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2006, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review and our review of the District's June 30, 2007, audit reports and USFR Compliance Questionnaire, which we received subsequent to the completion of our test work, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Cartwright Elementary School District No. 83 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$148 million it received in fiscal year (FY) 2007 to provide this education.

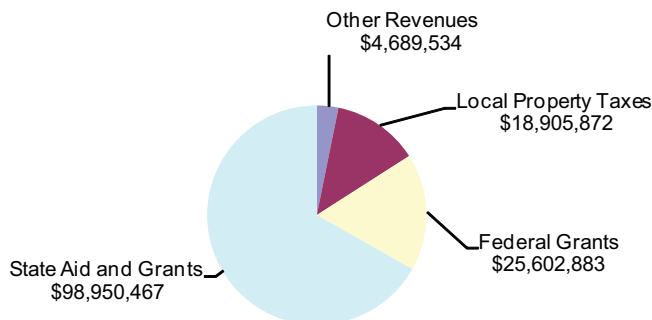
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, and our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District has failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2007

County: Maricopa
Number of Schools: 23

Number of Students: 19,188
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007* and *Cartwright Elementary School District No. 83 Comprehensive Annual Financial Report for the Year Ended June 30, 2007*.

The District's controls over expenditures should be strengthened

Credit Card Purchases

Because of the relatively high risk associated with transactions involving credit cards, school districts should establish and maintain effective internal controls to restrict credit card usage to district business. It is essential that the District establish and maintain effective internal controls to help ensure that credit card purchases are appropriate, authorized, adequately supported, and paid in a timely manner.

One of the District's schools inappropriately purchased a \$491 gift card with a district credit card.

However, the District did not have adequate controls over credit card purchases. For example, the District did not always maintain documentation to support Governing Board members' or district administrators' travel-related credit card charges; therefore, such charges could not be verified as appropriate district expenditures or within the Arizona Department of Administration's (ADOA) allowable travel rates. In addition, at one of the District's schools, employees inappropriately used a credit card to purchase a gift card in an attempt to utilize the entire amount approved on a purchase order. Further, the District did not always make credit card payments in a timely manner; of the 3 monthly statements reviewed, the District was charged a late fee on one credit card statement and a finance charge on another.

Travel Expenditures

Arizona Revised Statutes (A.R.S.) §15-342(5) requires districts to prescribe travel policies and procedures, and set amounts for paying lodging and meal expenses of employees and Governing Board members traveling on district business. The District is responsible for ensuring that taxpayer monies are spent only for appropriate district purposes and that amounts paid to district employees and Governing Board

The District did not always ensure travel expenditures were reasonable, necessary, and allowable.

members do not exceed the standard mileage, meal reimbursement, or lodging reimbursement rates established by the ADOA. However, the District did not fulfill its responsibility since it did not always properly calculate and pay mileage reimbursements, and it did not retain supporting documentation to justify why district officials made adjustments to mileage reimbursement claims submitted by employees. In addition, the District did not always ensure travel costs were reasonable, necessary, or allowable. For example, two administrative retreats were held in Prescott, Arizona, with costs totaling over \$8,000 and \$15,000, respectively. The District's contract auditors cited the travel-related portion of these retreats as questioned costs in the District's single audit reports, as they were not reasonable, necessary, or allowable under the federal programs from which they were paid.

Gift of Public Monies

The Arizona Constitution, Article IX, §7, prohibits districts from spending public monies on private individuals unless there is a public purpose served by the expenditure and the value the public received is not far exceeded by the amount paid. The Superintendent's contract allowed for reimbursement up to \$4,000 annually for dues to local civic organizations and/or for costs of fulfilling other professional obligations not covered by the employment contract. However, the District also reimbursed the Superintendent for items such as party decorations, gifts for Governing Board members, and sightseeing and meal costs for Governing Board members and the Superintendent in San Francisco.

Maintenance and Operation (M&O) Fund

It is essential that the District follows procedures designed to help ensure that cash balances are available before making expenditures from cash-controlled funds. However, the District did not always follow such procedures as the District inappropriately loaned monies from the M&O Fund to cover a cash deficit in the Full-Day Kindergarten Fund.

Recommendations

To strengthen controls over expenditures, the District should:

Credit Card Expenditures

- Require credit card users to submit credit card receipts and documentation to support the specific district purpose for each expenditure.
- Ensure that travel-related credit card charges are within the limits set forth by the ADOA.
- Compare credit card billing statements to receipts and determine that purchases represent valid district expenditures.
- Enforce its credit card policy prohibiting the purchase of gift cards.

- Ensure credit card statements are paid promptly to avoid late fees and finance charges.

Travel Expenditures

- Maintain supporting documentation for travel expenditures and any related adjustments, including travel claims that indicate the time and place travel begins and ends, odometer readings, and employee and supervisor signatures.
- Assign a second district employee to review travel reimbursements to ensure their accuracy.
- Ensure that all travel expenditures are allowable, reasonable, and necessary to the District's operations.

Gift of Public Monies

- Document the Governing Board's evaluation of expenditures that are not clearly for district operations to determine whether an educational purpose is being served and if the public value expected to be received is not far exceeded by the amount being paid. The Governing Board's determination should be retained with the supporting documentation for the expenditure.

M&O Fund

- Ensure sufficient cash is available in cash-controlled funds before authorizing expenditures from them.

The District's controls over student activities monies should be improved

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies and ensuring that proper procedures are followed for spending them. However, the Governing Board did not establish proper oversight. Specifically, the District did not always separate cash-handling and recordkeeping responsibilities, and as a result, over a 2-month period, a district employee used the signature stamp of a retired principal to embezzle approximately \$10,000 from the Student Activities Fund. In addition, the District did not always prepare or retain prenumbered student activities cash receipt forms and documentation to support that student activities cash receipts were reconciled to sales. Also, student

Due to lack of separation of cash-handling and recordkeeping responsibilities, a district employee had access to a retired principal's signature stamp and embezzled approximately \$10,000 from the Student Activities Fund.

activities disbursements were not always approved by two authorized individuals, and the District did not maintain documentation to support that the unused portion of a cash advance was redeposited into the Student Activities Fund. Additionally, the District did not ensure cash was available in student club accounts before disbursements were made. As a result, numerous student clubs had negative cash balances. Further, the District maintained several invalid student activities clubs such as Teacher Appreciation, Student ID, Referees, P.E. T-Shirts, Bookstore, and Special Ed. Finally, the District did not ensure all district bank accounts were established using the District's tax identification number.

Recommendations

To strengthen controls over student activities monies, the District should:

- Separate cash-handling and recordkeeping responsibilities among employees so that no one employee is able to prepare and sign checks. The District should also promptly remove check signing authorization and collect signature stamps from employees when they leave the District and appoint an authorized replacement.
- Use prenumbered cash receipt forms or tickets, inventory counts, or cash register tapes to document sales, and prepare activity or cash collection reports to reconcile cash collected to tickets or items sold.
- Ensure disbursements from the student activities bank account are made by checks signed by the student activities treasurer and one other employee authorized by the Governing Board. The District should also ensure that student activities disbursements are for appropriate purposes, are approved by the applicable student club as documented in the club's meeting minutes, and are supported by documentation of such.
- Ensure that total invoices/merchant receipts submitted by student clubs agree to the total of any cash advance provided. Redeposit any unused portion of a cash advance and retain supporting documentation.
- Verify that individual student clubs' cash balances are sufficient before authorizing disbursements.
- Ensure policies and procedures are followed for establishing student activities clubs.
- Ensure only monies raised by student efforts in connection with activities of student organizations, clubs, school plays, or other student entertainment are deposited into the District's student activities bank accounts.

USFR pages
X-H-9 through 11
describe the procedures
for student activities
disbursements.

- Ensure the District's tax identification number is used for all district bank accounts, including student activities accounts.
- Determine the nature of the monies in the invalid student club accounts, close the invalid accounts, and deposit any remaining balances in an appropriate district fund.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not always calculate absences properly for preschool students with disabilities or correctly calculate partial-day attendance for kindergarten, elementary, and junior high school students. Also the District did not

The District may not have received the appropriate amount of funding because it did not report membership and absences correctly.

always maintain documentation, such as sign-in and sign-out logs, tardy slips, or absence logs, to support the partial-day attendance recorded. Further, the District did not always prepare and retain student entry and withdrawal forms. Additionally, the withdrawal forms, when prepared, did not always include the withdrawal date, or the date on the withdrawal form did not always agree to the District's computerized attendance system, and the District did not always withdraw students with ten consecutive unexcused absences as of the first day of nonattendance. Finally, the District did not always maintain documentation to support that entries and withdrawals were entered into its computerized attendance system within 5 working days.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report accurate preschool attendance and partial-day attendance for other grades to ADE and maintain documentation, such as sign-in and sign-out logs, tardy slips, and absence logs, to support attendance reported. Further, the District should retain accurate documentation to support student membership reported to ADE, including accurate entry and withdrawal forms. In addition, the District should ensure that students with ten consecutive unexcused absences are counted in membership only through the last day of actual attendance. Also, entry

ADE provides guidance for attendance reporting in its *Instructions for Required Reports*.

and withdrawal forms should include the entry or withdrawal date, the date prepared, and the date the entry or withdrawal was entered into the District's computerized attendance system, which must be within 5 working days of the actual date of entry or withdrawal.

The District should improve controls over competitive purchasing

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors and help ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines. Specifically, for purchases requiring competitive sealed bids, the District did not always retain bid envelopes or did not stamp the envelopes with the time and date received. In addition, when using requests for proposals (RFP), the Governing Board did not always document the specific reasons for determining that the use of competitive sealed bids was either not practicable or not advantageous to the District, and the specific reasons why the vendor was awarded the contract. Additionally, for purchases requiring oral price quotations, the District did not always retain supporting documentation of all price quotations received or document the specific reasons for not selecting the vendor with the lowest price.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should:

- Maintain documentation of all bids or proposals received, including time- and date-stamped envelopes.
- Obtain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing an RFP.
- Document the specific reasons why the vendor selected was awarded the contract based on the factors set forth in the RFP, and retain all supporting documentation.

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and retain all price quotations received. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Document the reasons for selecting a vendor for reasons other than lowest price when obtaining oral or written price quotations.

The District should ensure that all conflicts of interest are identified and documented

A.R.S. §38-503 requires that Governing Board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting or participating in such decisions. The interest must be disclosed in writing and retained in a file exclusively for that purpose with the District. This file is public record. The District had procedures in place to notify Governing Board members and the District's administrators of these conflict of interest requirements. However, the District did not notify all of its employees of these requirements; therefore, we were unable to determine whether all employees with conflicts had filed conflict of interest statements.

Recommendations

To help ensure that the District identifies and documents any conflicts of interest for its employees and Governing Board members, the District should:

- Inform all Governing Board members and employees of the conflict-of-interest requirements and require those who have or whose relative has a substantial interest in any district contract, sale, purchase, service, or decision, to file a conflict-of-interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- If an employee supervises a relative, the conflict-of-interest statement should describe the relationship, and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay increases.